

**YAAN SECURITY TECHNOLOGY LTD**

(Company registration No. 200402490W)

**Unaudited Full Year Financial Statement and Dividend Announcement for the Year Ended 31 December 2007****PART 1 INFORMATION REQUIRED FOR FULL YEAR ANNOUNCEMENT****1(a)(i) An income statement (for the Group) together with a comparative statement for the corresponding period of the immediately preceding financial year.**

	<b>Group 31.12.2007 RMB'000</b>	<b>Group 31.12.2006 RMB'000</b>	<b>Increase/ (Decrease) %</b>
Revenue	128,437	94,583	35.8
Cost of sales	(82,628)	(58,551)	41.1
Gross Profit	45,809	36,032	27.1
Other operating income	470	3,774	(87.5)
Selling and distribution expenses	(15,221)	(13,212)	15.2
Research and development expenses	(4,146)	(2,687)	54.3
Administrative expenses	(8,923)	(7,267)	22.8
Other operating expenses	(490)	(2,900)	(83.1)
Profit from operations	17,499	13,740	27.4
Finance cost	(1,012)	(459)	120.5
Share of result from associate company	1,663	-	NM
Profit before income tax	18,150	13,281	36.7
Income tax	(1,350)	(395)	241.8
Profit after income tax	16,800	12,886	30.4

NM: not meaningful

1(a)(ii) The following items have been included in arriving at profit from operations:-

	Group	Group	Increase/
	2007	2006	(Decrease)
	RMB'000	RMB'000	%
<u>After charging:</u>			
Staff cost	13,668	10,183	34.2
Research and development expensed off	3,142	2,099	49.7
Allowance for doubtful trade receivables	199	774	-74.3
Provision for obsolete stocks	80	1,540	-94.8
Depreciation of property, plant and equipment	1,800	1,296	31
Amortization of intangible assets	1,108	657	68.6
Provision for warranty	96	80	20
[Written-back of provision]/Provision for income tax	-	(3,521)	NM
Operating lease expenses	1,432	1,353	26.3

NM: not meaningful

**1(b)(i) A balance sheet (for the company and the group), together with a comparative statement as at the end of the immediately preceding financial year.**

	<b>Group 31.12.2007 RMB'000</b>	<b>Group 31.12.2006 RMB'000</b>	<b>Company 31.12.2007 RMB'000</b>	<b>Company 31.12.2006 RMB'000</b>
<b>ASSETS</b>				
<b>Non-current assets</b>				
Property, plant and equipment	26,916	27,133	-	2
Membership rights	187	198	-	-
Intangible assets	4,681	3,129	-	-
Investment in associate	18,999	-	-	-
Investment in subsidiary	-	-	13,729	13,729
	<b>50,783</b>	<b>30,460</b>	<b>13,729</b>	<b>13,731</b>
<b>Current Assets</b>				
Inventories	24,492	20,609	-	-
Trade receivables	36,122	20,453	-	-
Other receivables, deposits and prepayments	2,750	3,022	5	4
Due from subsidiary	-	-	745	751
Cash and bank balances	10,474	23,496	51	1,745
	<b>73,838</b>	<b>67,580</b>	<b>801</b>	<b>2,500</b>
<b>Less:</b>				
<b>Current Liabilities</b>				
Trade and other payables	46,920	37,090	770	757
Provision for warranty	385	289	-	-
Due to a director	1,095	587	-	-
Bank borrowing	10,000	10,000	-	-
Income tax payable	476	310	-	-
	<b>58,876</b>	<b>48,276</b>	<b>770</b>	<b>757</b>
<b>Net Current Assets</b>	<b>14,962</b>	<b>19,304</b>	<b>31</b>	<b>1,743</b>
<b>Non-Current Liabilities</b>				
Deferred tax liability	125	-	-	-
<b>Net Assets</b>	<b>65,620</b>	<b>49,764</b>	<b>13,760</b>	<b>15,474</b>
<b>Capital and reserves</b>				
Share capital	16,869	16,869	16,869	16,869
Statutory reserves	6,670	4,816	-	-
Foreign currency translation reserve	57	83	57	83
Accumulated profit/(loss)	42,024	27,996	(3,166)	(1,478)
	<b>65,620</b>	<b>49,764</b>	<b>13,760</b>	<b>15,474</b>

**1(b)(ii) Aggregate amount of group's borrowings and debt securities**

Amount repayable in one year or less, or on demand

As at 31 December 2007		As at 31 December 2006	
RMB'000		RMB'000	
Secured	Unsecured	Secured	Unsecured
10,000	-	10,000	-

The bank loan is pledged by land use right and attached building.

Amount repayable after one year

As at 31 December 2007		As at 31 December 2006	
RMB'000		RMB'000	
Secured	Unsecured	Secured	Unsecured
-	-	-	-

**1(c) A cash flow statement (for the group), together with a comparative statement for the corresponding period of the immediately preceding financial year.**

	<b>Group 31.12.2007 RMB'000</b>	<b>Group 31.12.2006 RMB'000</b>
<b>Operating activities</b>		
Profit before income tax	18,150	13,281
Adjustments for:-		
Allowance for doubtful trade receivables	199	774
Provision for obsolete stocks	80	1,540
Amortisation of intangible assets	1,108	657
Currency translation	(26)	24
Depreciation of property, plant and equipment	1,800	1,296
[Written-back of provision]/Provision for warranty	96	80
[Written-back of provision]/Provision for income tax	-	(3,521)
Loss on disposal of property, plant and equipment	-	28
Written off of property, plant and equipment	2	-
Share of result of associate	(1,663)	-
Interest income	(86)	(60)
Interest expense	1,012	489
<b>Operating profits before working capital changes</b>	<b>20,672</b>	<b>14,588</b>
Working capital changes:-		
[Increase]/Decrease in inventories	(3,963)	(7,012)
[Increase]/Decrease in trade and other receivables, deposits and prepayments	(15,596)	(7,897)
Increase/[Decrease] in trade, other payables and accruals	10,337	11,738
<b>Cash generated from operations</b>	<b>11,450</b>	<b>11,417</b>
Interest received	86	60
Interest paid	(1,012)	(489)
Income tax paid	(1,059)	(670)
<b>Net cash from operating activities</b>	<b>9,465</b>	<b>10,318</b>
<b>Cash flows from investing activities</b>		
Purchase of property, plant and equipment	(1,585)	(4,288)
Purchase of intangible assets	(261)	(80)
Development cost incurred	(2,387)	(1,432)
Acquisition of associate	(17,336)	-
Net cash flows used in investing activities	(21,569)	(5,800)
<b>Cash flows from financing activities</b>		
Distribution of dividend	(918)	(918)
Bank borrowing	20,000	10,000
Repayment of bank borrowing	(20,000)	(5,000)
<b>Net cash (used in)/ generated from financing activities</b>	<b>(918)</b>	<b>4,082</b>
Net (decrease)/increase in cash and bank balances	(13,022)	8,600
Cash and bank balances at beginning of financial period	23,496	14,896
Cash and bank balances at end of financial period	10,474	23,496

**1(d)(i) A statement (for the company and group) showing either (i) all changes in equity or (ii) changes in equity other than those arising from capitalization issues and distributions to shareholders, together with comparative statement for the corresponding period of the immediately preceding financial year.**

**Group**

	Share capital RMB'000	Share premium RMB'000	Statutory reserve RMB'000	Translation reserve RMB'000	Accumulated Profits RMB'000	Total RMB'000
Balance as at 1 January 2007	16,869	-	4,816	83	27,996	49,764
Net profit for the financial period	-	-	-	-	16,800	16,800
Appropriation of reserves	-	-	1,854	-	(1,854)	-
Currency translation differences	-	-	-	(26)	-	(26)
Distribution of dividend	-	-	-	-	(918)	(918)
Balance as at 31 December 2007	16,869	-	6,670	57	42,024	65,620

	Share capital RMB'000	Share premium RMB'000	Statutory reserve RMB'000	Translation reserve RMB'000	Accumulated Profits RMB'000	Total RMB'000
Balance as at 1 January 2006	14,835	2,034	3,332	60	17,511	37,772
Transfer from share premium account to share capital upon implementation of the Companies (Amendment) Act 2005	2,034	(2,034)	-	-	-	--
Net profit for the financial period	-	-	-	-	12,886	12,886
Appropriation of reserves	-	-	1,484	-	(1,484)	-
Currency translation differences	-	-	-	23	-	23
Distribution of dividend	-	-	-	-	(917)	(917)
Balance as at 31 December 2006	16,869	-	4,816	83	27,996	49,764

**Company**

	Share capital RMB'000	Share premium RMB'000	Statutory reserve RMB'000	Translation reserve RMB'000	Accumulated Profits RMB'000	Total RMB'000
Balance as at 1 January 2007	16,869	-	-	83	(1,478)	15,474
Loss for the year	-	-	-	-	(770)	(770)
Currency translation differences	-	-	-	(26)	-	(26)
Distribution of dividend	-	-	-	-	(918)	(918)
Balance as at 31 December 2007	16,869	-	-	57	(3,166)	13,760

	Share capital RMB'000	Share premium RMB'000	Statutory reserve RMB'000	Translation reserve RMB'000	Accumulated Profits RMB'000	Total RMB'000
Balance as at 1 January 2006	14,835	2,034	-	60	(3,235)	13,694
Transfer from share premium account to share capital upon implementation of the Companies (Amendment) Act 2005	2,034	(2,034)	-	-	-	-
Net profit for the financial period	-	-	-	-	2,674	2,674
Currency translation differences	-	-	-	23	-	23
Distribution of dividend	-	-	-	-	(917)	(917)
Balance as at 31 December 2006	16,869	-	-	83	(1,478)	15,474

**1(d)(ii) Details of any changes in the company's share capital arising from right issue, bonus issue, share buy-backs, exercise of share options or warrants, conversion of other issues of equity securities, issue of shares for cash or as consideration for acquisition or for any other purpose since the end of the previous period reported on. State also the number of shares that may be issued on conversion of all the outstanding convertibles as at the end of the current financial period reported on and as at the end of the corresponding period of the immediately preceding financial year.**

There was no change in the Company's number of shares since 31 December 2006. The share capital of the Company as at 31 December 2007 was 61,002,000 ordinary shares.

**1(d)(iii) To show the total number of issued shares excluding treasury shares as at the end of current financial period and as at the end of the immediately preceding year.**

	<b>Group</b>	<b>Group</b>	<b>Company</b>	<b>Company</b>
	<b>31.12.2007</b>	<b>31.12.2006</b>	<b>31.12.2007</b>	<b>31.12.2006</b>
Number of issued shares ('000)	61,002	61,002	61,002	61,002

**1(d)(iv) A statement showing all sales, transfers, disposals, cancellation and/or use of treasury share as at the end of the current financial period reported on.**

Not applicable.

**2. Whether the figures have been audited or reviewed and in accordance with which auditing standard or practice.**

The figures have not been reviewed or audited by the Company's auditors.

**3. Where the figures have been audited or reviewed, the auditors' report (including any qualifications or emphasis of matter).**

Not applicable.

**4. Whether the same accounting policies and methods of computation as in the issuer's most recently audited annual financial statements have been applied.**

The same accounting policies and methods of computation adopted in the most recently audited financial statements for the financial year ended 31 December 2006 have been applied in the preparation of the financial statements for the period ended 31 December 2007 except that the Group has adopted new/revised Financial Reporting Standards ("FRS") which came into effect on 1 January 2007. Please refer to item 5 below.

- 5. If there are any changes in the accounting policies and methods of computation, including any required by an accounting standard, what has changed, as well as the reasons for, and the effect of, the change.**

There was no material impact to the financial statements of the Group arising from the adoption of the new /revised FRS which came into effect on 1 January 2007.

- 6. Earnings per ordinary share of the group for the current financial period reported on and the corresponding period of the immediately preceding financial year, after deducting any provision for preference dividends.**

	Group 31.12.2007 RMB	Group 31.12.2006 RMB
Basic earnings per share (cents)	27.54	21.12
Fully diluted earnings per share (cents)	27.54	21.12

Explanatory notes:

- The calculation of EPS is based on net profits attributable to shareholders and share capital of 61,002,000 shares

- 7. Net asset value (for the issuer and group) per ordinary share based on issued share capital of the issuer at the end of the**

**(a) Current financial period reported on; and**

**(b) Immediately preceding financial year.**

	Group 31.12.2007	Group 31.12.2006	Company 31.12.2007	Company 31.12.2006
Net asset value per share (RMB)	1.08	0.82	0.23	0.25

Net assets value per share was calculated based on shareholders' equity of our Group/Company as at 31 December 2007 and 31 December 2006 and share capital of 61,002,000 shares.

**8. A review of the performance of the group, to the extent necessary for a reasonable understanding of the group's business. It must include a discussion of the following:-**

- (a) any significant factors that affected the turnover, cost, and earnings of the group for the current financial period reported on, including (where applicable) seasonal or cyclical factors; and**
- (b) any material factors that affected the cash flow, working capital, assets or liabilities of the group during the current financial period reported on.**

#### Overview

YAAN is a leading technology-based company which designs, manufactures and markets high quality CCTV security and surveillance products and accessories for a wide variety of applications in the commercial, industrial and government markets, domestically as well as internationally.

During FY2007, YAAN was awarded as one of Top 100 Security Enterprises, and one of Top 10 CCTV Security Brands for the fourth year. YAAN accomplished the acquisition of 40% the share capital in Shenzhen Launch XinChuang Technology Co., Ltd ( "Launch" ). Launch is a high technology company principally engaged in the design, manufacture and marketing of network video products. The acquisition is to enhance research and development capabilities of the group and to complement the Group's product portfolio.

#### Revenue

Group revenue increased by approximately RMB33.9 million or 35.8% from RMB94.6 million in FY2006 to RMB128.4 million in FY2007. The implementation of the "Safe City" concept in China coupled with the introduction of our new proprietary products contributed to the increase of sales.

#### Gross Profit

Gross profit in FY2007 was 35.7% of revenue, compared to 38.1% of revenue in FY2006. This was mainly due to our reduction in selling prices for some of our products to ensure their competitiveness in the market, as well as higher sales of our high speed dome cameras which have lower profit margins compared to that of our traditional products. The revenue derived from high speed dome cameras accounted for 23.7% of revenue in FY2007 compared to 18.2% of revenue in FY2006.

#### Profit before taxation

Profit before taxation amounted to approximately RMB18.1 million in FY2007, which was an increase of 36.7% compared to the profit before taxation of RMB13.3

million in FY2006. This growth was mainly due to the increase in sale, our cost efficiency as well as other operating income explained below.

We managed to keep our operating costs under control. Selling and Distribution expenses increased by approximately RMB2 million or 15.2% from approximately RMB13.2 million in FY2006 to approximately RMB15.2 million in FY2007. However as a percentage of revenue, it declined from 14.0% to 11.9%. The increase in selling and distribution expenses was mainly due to the continued growth in business, including cost associated with new products launched and the introduction of new distribution channels.

Research and development expenses were approximately 4.1 million, or 3.2% of revenue, in FY2007 compared to approximately 2.7 million, or 2.8% of revenue, in FY2006. The increase in research and development expenses was mainly due to the continued investment in new product development and engineering for future growth.

Administrative expenses increased by approximately RMB1.6 million or 22.8% from approximately RMB7.3 million in FY2006 to approximately RMB8.9 million in FY2007. As a percentage of revenue, it declined from 7.7% to 6.9%. The net increase in administrative expenses was mainly due to the continued growth in the business, including costs associated with acquisition of 40% of Launch and increased compensation expense for pension.

Other operating income decreased by approximately RMB3.3 million from approximately RMB3.8 million in FY2006 to approximately RMB0.5 million in FY 2007. The other operating income in FY2007 was mainly income derived from maintaining and the other operating income in FY2006 was mainly written back of past income tax provision assumed on acquisition of subsidiary of approximately RMB3.5 million. The other operating expense decreased by approximately RMB2.4 million from approximately RMB2.9 million in FY 2006 to approximately RMB0.5 million in FY2007. This was mainly due to lower provision for obsolete stocks and doubtful bad debts.

The finance cost increased by approximately RMB0.5 million from approximately RMB0.5 million in FY2006 to approximately RMB1.0 million. This was mainly due to increase of average bank borrowings which were in line with the enlarged business size.

The share of result of associate amounting to approximately RMB1.7 million in FY2007 was share of profit derived from Launch.

The corporate income tax increased by approximately RMB1.0 million from RMB0.4m in FY 2006 to RMB1.4 million in FY 2007. This was mainly due to the higher taxable profit of our wholly-owned subsidiary. The effective tax rate for our wholly-owned subsidiary in FY2007 accounted to 7.5%.

## REVIEW OF FINANCIAL POSITION

### Non-Current Assets

Our non-current assets were approximately RMB50.8 million, or 40.8% of total assets, as at 31 December 2007, compared to RMB30.5 million, or 31.0% of total assets, as at 31 December FY2006. This was mainly due to the acquisition of the 40% share capital of Launch.

### Current Assets

As at 31 December 2007 and 31 December 2006, our current assets stood at approximately RMB73.8 million and RMB67.6 million, respectively.

As at 31 December 2007, the group had cash and cash equivalents of approximately RMB10.5 million compared to approximately RMB23.5m as at 31 December 2006. The decrease in cash and cash equivalents was mainly due to cash paid for the acquisition of Launch.

The inventories also increased by approximately RMB 3.9 million or 18.8% from approximately RMB20.6 million as at 31 December 2006, to approximately RMB 24.5 million as at 31 December 2007. However, inventory turnover days improved from 104 days in 2006 to 100 days in 2007. Trade receivables increased by RMB16 million from approximately RMB20.0 million as at 31 December 2006, to approximately RMB36.1 million as at 31 December 2007, which was in line with the revenue growth. Other receivables, deposits and prepayment decreased from RMB3.5 million as at 31 December 2006 to RMB2.7 million as at 31 December 2007, mainly due to collection of other receivables.

### Current liabilities

Trade and other payables increased from approximately RMB37.1 million at 31 December 2006 to approximately RMB46.9 million. The increase was mainly due to the increase in procurement of raw materials.

## Cash Flow

We believe that our existing cash together with the cash we anticipate to generate from operating activities, and our available bank facilities will be sufficient to meet our cash requirement for the foreseeable future.

- 9. Where a forecast, or a prospect statement, has been previously disclosed to shareholders, any variance between it and the actual results.**

Not applicable.

- 10. A commentary at the date of the announcement of the significant trends and competitive conditions of the industry in which the group operates and any known factors or event that may affect the group in the next reporting period and the next 12 months.**

With the implementation of the "Safe City" concept in the PRC, coupled with the State Ordinance 458 and the Public Security's 3111 projects, the demand of security surveillance systems in China would continue to grow. The Group is actively capitalizing on these market opportunities by expanding our sales and marketing network, widening our proprietary product portfolio. During FY2007, YAAN acquired 40% of share capital of Launch, which offer a wide range of products lines including IP cameras, network video server and software, etc. which we believe complement YAAN's existing product portfolio. YAAN believes that the acquisition would enhance our research and development capability to meet increasingly sophisticated demands of the customers.

## **11. Dividend**

- (a) Any dividend declared for the current financial period reported on?**

None

- (b) Corresponding Period of the immediately Preceding financial year**

Yes.

- (c) Date payable**

Not applicable.

- (d) Books closure date**

Not applicable.

**12. If no dividend has been declared/recommended, a statement to the effect.**

In light with the use of funds for our acquisition of 40% of share interest of Launch in FY2007, and considering the coming year's working capital needs, the Board decided not to pay a dividend in FY2007.

**PART II – ADDITIONAL INFORMATION REQUIRED FOR FULL YEAR ANNOUNCEMENT (This part is not applicable to Q1, Q2, Q3 or half Year Results)**

**13. Segmental segment**

**(a) Business segment**

Our Group's profit is almost entirely attributable to the sales of CCTV security and surveillance products and accessories. Accordingly, no business segmental analysis is provided.

**(b) Geographical segment**

The assets and operations of the Group are primarily in the PRC. Accordingly, no geographical segmental analysis is provided.

**14. In the review of performance, the factors leading to any materials changes in contributions to turnover and earnings by the business or geographical segment.**

Not applicable.

**15. A breakdown of sales**

	<b>Year ended 31 Dec 2007 RMB'000</b>	<b>Year ended 31 Dec 2006 RMB'000</b>	<b>% increase/ (decrease)</b>
(a) Gross revenue reported for first half year	44,174	33,979	30.0
(b) Operating profit after tax reported for first half year	2,371	2,559	(7.3)
(c) Gross revenue reported for second half year	84,263	60,604	39.0
(d) Operating profit after tax reported for second half year	14,429	10,327	40.0

**16. A breakdown of the total annual dividend (in dollar value) for the issuer's latest full year and its previous full year.**

	2007	2006
	S\$	S\$
Ordinary		
Interim	-	183,006
Final	-	183,006
Total annual dividend	-	366,012

**BY ORDER OF THE BOARD**

**Ye Chen**  
**Executive Chairman**